CALDERDALE MBC

WARDS AFFECTED ALL

CABINET

16th January 2023

CAPITAL & INVESTMENT STRATEGY

REPORT OF THE HEAD OF FINANCE

1. PURPOSE OF REPORT

1.1 To approve:-
1) A Capital Strategy
2) An Investment Strategy (including the Treasury Management Strategy)
3) The Treasury Management Policy
4) The Council's Minimum Revenue Provision (MRP) Policy
5) Prudential Indicators for 2023/24, 2024/25 & 2025/26

2. NEED FOR A DECISION

2.1 It is required by part 1 of the Local Government Act 2003, related statutory guidance, Prudential code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Sector that the Council approves a number of policies and strategies in advance of the next financial year.

2.2 The Authority is also required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 to prepare an annual statement of their policy on making MRP for submission to full Council.

3. RECOMMENDATION

3.1 That the following strategies and policies be approved for recommendation to Council:-

1. The Capital Strategy (Appendix 1)
2. The Investment Strategy (Appendix 2)
3. The Treasury Management Policy (Appendix 3)
4. The Council's Minimum Revenue Provision Policy (Appendix 4)
5. The Prudential Indicators (Appendix 5)

3.2 That an Operational Boundary for external debt of £162m, £167m and £159m and an Authorised Limit for external debt of £169m, £174m and £166m for the financial years 2023/24, 2024/25 and 2025/26 respectively be approved for recommendation to Council.

4. BACKGROUND AND/OR DETAILS

4.1 The Council has previously been required to set both a Treasury Management Policy and Minimum Revenue Provision (MRP) Policy along with a suite of prudential indicators prior to the start of the new financial year.

4.2 Following recent updates of both the Prudential Code for Capital Finance in Local Authorities and the CIPFA Code of Practice for Treasury Management in the Public Sector, councils now need to produce both a capital strategy and investment strategy reflecting the requirements of these documents as well as the related Statutory Guidance on Local Government Investments.

4.3 There is no prescribed way in which the disclosures need to be made in order to satisfy the various publications but is felt that reporting them all together would aid understanding of how they complement each other as a whole.

5. OPTIONS CONSIDERED

5.1 The Capital Strategy (**Appendix 1**)

5.1.1 In order to demonstrate that we take capital and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability we need to put in place a capital strategy that sets out the long term context in which capital expenditure and investment decisions are made giving due consideration to both risk and reward and the impact on the achievement of priority outcomes.

5.1.2 The purpose of the capital strategy is therefore to:-

- ensure capital expenditure is aligned with the Council's priorities
- maximise the use of resources
- provide a clear framework for decisions relating to capital expenditure
- establish a corporate approach to generating capital resources

5.1.3 The appended strategy builds on the initial one that was agreed as part of the latest Medium Term Financial Strategy (MTFS). It should also be noted that the capital strategy is based on the Capital Programme as at the second capital monitor which went to Cabinet in November 2022 and does not therefore reflect other changes or any additions to the Capital Programme subsequently approved.

5.2 The Investment Strategy (**Appendix 2**)

5.2.1 It has been normal practice for the Council to agree a Treasury Management Strategy and Policy before the start of the new financial year in keeping with the CIPFA Code of Practice.

5.2.2 Following concerns expressed by the National Audit Office and Public Accounts Committee, the Government issued additional statutory guidance on local authority investments. This requires local authorities to publish a wider-ranging annual investment strategy. This strategy must incorporate both traditional treasury management activities as well as non-financial investments (which are essentially property investments bought for profit).

5.2.3 The Treasury Management Policy and suite of Prudential Indicators are the Council's overarching guidelines for Treasury activities providing a framework within which the Council's Treasury function must operate. The Treasury Management Strategy on the other hand is the planned approach of operation consistent with those policies.

5.2.4 Any borrowings or investments carried out will therefore be within the limits as set out in those policies. It is felt that the basic strategy outlined in Appendix 2 will minimise risk, reduce short and long term interest costs to the Council but maximise investment income whilst providing sufficient flexibility to respond to movements in the economy and interest rates when they occur.

5.3 Treasury Management Policy (**Appendix 3**)

5.3.1 The Treasury Management Policy flows from the Investment Strategy and at this time it is felt that the last year's policy to Cabinet on the 17th January 2022 is still suitable for our current needs.

5.4 The Council's Minimum Revenue Provision Policy (**Appendix 4**)

5.4.1 Capital expenditure incurred by the Council can be paid for from grants or capital receipts, but sometimes the expenditure is financed by "credit arrangements" such as borrowing or leasing. Local authorities are required to pay off these credit arrangements (or debt) by charging an amount to their revenue budget each year. This is called the Minimum Revenue Provision (MRP).

5.4.2 The MRP Policy that is being recommended for approval is set out in Appendix 4 and follows a continuation of the practices agreed previously. In summary, the Council will set aside 2% of its Capital Financing Requirement (CFR) each year as its MRP on outstanding capital expenditure previously supported by Government. For capital expenditure financed by prudential borrowing or under a PFI arrangement, MRP will be based on the life of the assets created. It is also recommended that the Council only begins to charge MRP into its accounts the year after a capital asset first becomes operational. The policy also delegates authority to the Head of Finance to make any changes to MRP if overpayments from previous years are identified.

5.5 Prudential Indicators for 2023/24 to 2025/26 (**Appendix 5**)

5.5.1 Under the Prudential Code for Capital Finance in Local Authorities, before the start of each financial year, the Council is required to set its prudential indicators for the forthcoming and following two years.

5.5.2 The prudential indicators shown in Appendix 5 are consistent with the plans and approach taken in the Capital Strategy, Investment Strategy and MRP Policy recommended within this report. The majority of the indicators are estimates and actuals relating to capital expenditure/financing as well as borrowing costs compared to the Authority's overall budget and these are for Members to note.

5.5.3 In addition to these there are two limits relating to the debt ceiling which also need formally approving to give Members assurance and control over the borrowings of an authority. The Council's Operational Boundary (expected level) for external debt is recommended to be £162m, £167m & £159m for the financial years 2023/24, 2024/25 and 2024/25 respectively. Authorised Limits (maximum debt levels) of £169m, £174m and £166m for the financial years 2023/24, 2024/25 and 2025/26 respectively are also being recommended.

5.5.4 During 2021, Government consulted on revisions to the current Prudential Code. A new Code has been agreed and published and its requirements have been built into the strategies. This update focused again on councils buying investment properties for financial gain. The new Code sets out that councils cannot borrow from the Public Works Loan Board (PWLB) to fund such investments.

5.5.5 New indicators around proportionality and the categorisation of investments are also part of the document but the core objective however of the Code is to stop authorities borrowing to invest primarily for financial return, for example, in commercial property. Investment in housing, regeneration projects and normal service delivery is still allowable though.

5.5.6 Although no changes have been made to the indicators in this report, the Council is already operating within the spirit of the new Code as our plans do not include any schemes, funded by debt, where the purpose is to invest purely for commercial gain.

6. FINANCIAL IMPLICATIONS

6.1 The implications are contained within the report and are reflected in the 2023/24 revenue budget.

7. LEGAL IMPLICATIONS

7.1 Due to the nature of this report there are no legal implications.

8. HUMAN RESOURCES AND ORGANISATION DEVELOPMENT IMPLICATIONS

8.1 There are no HR & OD implications arising directly from these policies and strategies although the implications of its implementation will need to be considered.

9. CONSULTATION

9.1 Although no direct consultation has been carried out, the report is in keeping with previous years and builds on the strategy set out in the Medium Term

Financial Strategy that was approved by Cabinet on 10th October 2022. Information has also been collected from financial brokers and institutions.

10. ENVIRONMENT, HEALTH AND ECONOMIC IMPLICATIONS

10.1 None arising out of this report although the environmental, health and economic implications of the implementation of these strategies will need to be considered at the relevant time.

11. EQUALITY AND DIVERSITY IMPLICATIONS

11.1 None arising out of this report.

12. SUMMARY AND RECOMMENDATIONS

12.1 The report sets revised prudential indicators and specifically recommends that an Operational Boundary for external debt of £162m, £167m and £159m and an Authorised Limit for external debt of £169m, £174m and £166m for the financial years 2023/24, 2024/25 and 2025/26 be approved.

12.2 The report also recommends the approval of the Council's Capital Strategy, Investment Strategy, Treasury Management Policy and Minimum Revenue Provision policy.

FOR FURTHER INFORMATION ON THIS REPORT CONTACT:

D Hitchen Senior Finance officer Chief Executive's office
Telephone 01422 393587
Email
dave.hitchen@calderdale.gov.uk

DOCUMENTS USED IN THE PREPARATION OF THIS REPORT:

1. CIPFA's Code of Practice on Treasury Management 2021
2. CIPFA's Code of practice for Prudential Indicators 2021
3. Capital & Investment Report 2022/23
4. The Medium Term Financial Strategy report 2023/24

DOCUMENTS ARE AVAILABLE FOR INSPECTION AT:
Online/Finance Services, Princess Buildings, Halifax

APPENDIX 1

CAPITAL STRATEGY

1 <u>Introduction</u>

1.1 The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

1.2 CIPFA recently approved a new Prudential Code following extensive consultation. CIPFA's intention was that the new Code would have a soft launch in 2022/23 prior to full implementation in 2023/24. The capital strategy which Cabinet and Council are being asked to approve fully reflects all the recommendations within the new Code.

1.3 The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.4 The Prudential code requires authorities to look at capital expenditure and investment plans in light of overall organisational strategy and resources to ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

1.5 The Prudential Code sets out that, in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a Capital Strategy. The Capital Strategy should show the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.6 This Capital Strategy sets out the framework for the self-management of capital finance and involves the following areas:-

- Capital expenditure and investment plans
- Prudential indicators
- External debt
- Treasury Management

The purpose of the Capital Strategy is:-

- To ensure capital expenditure is aligned with the Council's priorities
- To maximise the use of resources
- To provide a clear framework for decisions relating to capital expenditure
- To establish a corporate approach to generating capital resources

2 Calderdale’s Approach to Maximising Capital Funding

2.1 Around three quarters of the Council’s current Capital Programme is funded by Government grant or other external funding without calling upon the Council’s resources, for example, the West Yorkshire Transport Scheme is fully funded by grant. This will be drawn down as the scheme progresses through various approval stages.

2.2 The Council is selective in the bids it makes for external funding by ensuring consistency with its corporate priorities and financial strategies, i.e. there is still a risk of cost overruns as grant funding is usually cash limited. The Council has a forward programme of capital receipts covering surplus property, planned release of accommodation and development opportunities. The Asset Management Team manages the disposals process drawing on expertise from the Council’s Planning, Legal, Land & Property Services and Finance Services.

2.3 The Council’s property policy is to rationalise the property portfolio (for example as part of the asset management review) to give fewer buildings, which are maintained to a better standard, which are fit for purpose and provide better access to services. The capital receipts generated from this rationalisation process along with other surplus assets are re-invested according to the Council’s priorities.

2.4 Most grant funding is now un-ringfenced. Council policy is still to passport most of this funding to specific work programmes and therefore virtually all of this is directed towards major priority areas. All other schemes rely principally on external support (e.g. securing specific grant funding), prudential borrowing or the pool of capital receipts (funding raised by the sale of Council assets).

3 The Use of Capital Resources

3.1 The Council’s approach to prioritising the use of capital expenditure and resources can be summarised as follows:-

(a) For major annual programmes of work funded by specific Government allocations or where Members have chosen to passport resources in Schools, Highways and Housing to maintain the allocation of grant funding broadly in line with Government allocations. Programmes for this work are determined once allocations are finalised and the funding is prioritised according to the overarching strategies and needs in those areas.

(b) To progress projects which are fully funded and which therefore will have no effect on the Council’s overall capital financing position. This includes schemes which are funded by grants or which will be financed by prudential borrowing. Capital projects which are fully funded or self-financing, can be referred to Cabinet for inclusion in the capital programme at any time (subject to them still meeting the objectives of the Council). The appraisal process for schemes which are partly funded or for which there is no funding in place are considered as part of the prioritisation process outlined below.

(c) To prioritise all other schemes within the remaining level of capital resources available to the Council over the planned period.

4 Prioritisation of Surplus Resources

4.1 The Capital Strategy demonstrates and sets the framework for how the Council's Capital Programme supports its corporate priorities. In order to prioritise the allocation of the available resources Members will consider the extent to which schemes contribute to the Vision 2024 or the Council's agreed outcomes:

- Growing the economy
- Reducing inequalities
- Building a sustainable future

4.2 Cabinet will also need to consider in this prioritisation underlying criteria around value for money, necessity (e.g. fire safety works) and customer impact. It is assumed that any schemes that come forward requesting prudential borrowing approval, on a self-financing basis, will be considered separately on the strength of the business case and risks presented.

5 Links to Other Strategies

5.1 The four year Capital Programme includes £34.7m of forecast expenditure to 2025/26 to be funded by prudential borrowing, with the majority of this spend being on the New Halifax Leisure facility. The annual cost of servicing this borrowing is around £2.2m.

5.2 The Capital Programme outside of the externally funded schemes is financed mainly from capital receipts from the disposal of surplus assets held by the Council and any prudential borrowing agreed by Members to be included in the MTFS. The revenue implications of the Capital Programme in terms of the cost of borrowing have been built into the MTFS. The sponsoring directorates accommodate within their revenue budgets the on-going revenue implications in terms of additional costs/income associated with the investment. The MTFS makes assumptions about the level of interest rates that the Council will pay on its borrowings and the period over which it will repay debt (the Minimum Revenue Position or MRP). These assumptions around revenue related capital programme costs are in line with the Prudential Code and Treasury Management Strategy both of which form part of this report.

5.3 The capital strategy is subject to continuous review and has been prepared in collaboration with other directorates to ensure that it is consistent with the MTFS, which has itself been reviewed and updated. The revenue implications of the capital strategy have also been built into the MTFS.

6 Monitoring and Review of Capital Investment

6.1 Capital investment activities are reported four times a year to Cabinet giving details of its overall shape, the progress being made and the funding flexibility available over the forecast period to promote new schemes. The report focuses on the cost, associated funding of schemes, delivery dates and provides an update on other major issues especially on the more significant schemes within the programme.

7. The Capital Budget Forecast

7.1 Background

7.1.1 As highlighted above, the Council's capital strategy is to maximise the use of resources, to provide a clear framework for decisions relating to capital expenditure and to establish a corporate approach to generating capital resources.

7.1.2 Capital expenditure relates to spending on assets which are to be used by the Council over the long term. This includes the buying of equipment and the purchase, construction or improvement of land and buildings. The current programme includes provision for the Council's major projects including the West Yorkshire Transport Fund schemes. These key projects alone will result in an investment in the area well over £50m with the economic and environmental benefits of this investment continuing far into the future.

7.2 Forecast Expenditure

7.2.1 It is currently expected that over the 3 year period to the end of 2025/26 the Council will be spending around £213m on the schemes below. The figures do not include expenditure incurred in previous years or any additional expenditure yet to be approved.

- Major annual programmes of work funded by specific Government allocations, or where Members have chosen to "passport" resources:-
  - Schools (£32.4m)
  - Housing (£19m)
  - Investment in the corporate estate (£12.5m)
  - Highways programmes including integrated & city region sustainable transport settlement (£28.5m)
  - West Yorkshire plus transport fund & transforming Cities funds (£25.1m)
  - Regeneration schemes including Town centres & high street investment (£61.8m)
  - New Halifax Leisure facility (£31.5m)
  - Various other one-off schemes (£2m)

7.3 Capital Resources

7.3.1 The main elements of capital financing are: -

i) Government-funded Grants

ii) Prudential (Unsupported) Borrowing

iii) Revenue and Reserves

iv) Pooled Resources – Capital receipts

7.3.2 The largest proportion of Council capital spend is financed by Central Government grants. Although most of this is now un-ringfenced, Council policy is still to passport this to specific work programmes. Virtually all this funding is therefore directed towards schools, road/transport and housing schemes as can be seen above. All other schemes rely principally on other external support, prudential borrowing or the pooling of capital receipts (funding raised by the sale of Council assets).

7.3.3 The Government no longer provides supported borrowing (i.e. where loan costs are paid to the Council through Revenue Support Grant) for new schemes. However, the Council has the power to supplement funding through prudential borrowing where it is proved to be sustainable (backed by a valid business case) or funded from compensatory savings. When prudential borrowing is carried out the cost of this is charged to the revenue account as principal and interest. As mentioned previously, the Capital Programme allows for expenditure of £34.7m to be funded by prudential borrowing.

7.3.4 On-going development with partners to provide a joined-up service is well established in Calderdale. The Council also works in partnership to maximise value for money and return on capital, examples of this are working with Heritage Lottery Fund (HLF), NHS organisations, West Yorkshire Combined Authority and Together Housing.

7.3.5 It should also be remembered that other schemes either awaiting final approval from Council or still being developed would reduce the available resources should they be agreed. The table below does not currently show any figures for 2025/26 as schemes are still being developed for later years and there is significant uncertainty around Government funding. Further updates will be provided in future versions of this report when more is known.

Overall Capital Financial Forecast

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Directorate Spend:-					
Adult Services and Wellbeing	3.9	6.1	3.3		13.3
Children & Young People's Services	6.7	10.0	15.7		32.4
Public Services	1.4	0.2	0.0		1.6
Regeneration and Strategy	71.0	75.9	18.8		165.7
Total Expenditure	83.0	92.2	37.8		213.0
Financed by:-					
Grants and Contributions	72.0	67.3	37.3		176.6
Revenue Funding & Reserves	0.1	0.2	0.0		0.3
Ring fenced/Prudential Borrowing	9.6	24.6	0.5		34.7
Use of Pooled Resources	1.3	0.1			1.4
Total Capital Finance Available	83.0	92.2	37.8		213.0
Current Surplus (+) /Deficit (-)	**0**	**0**	**0**		**0**

TREASURY MANAGEMENT AND NON-FINANCIAL INVESTMENT STRATEGY 2023/24

1. Introduction and Background

1.1 The Authority operates under the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Local Authorities which was adopted by the Council at the meeting held on the 3rd April 2002.

1.2 The CIPFA Code is revised on a regular basis with the last major revision taking place following the turmoil in the banking sector in 2008 and the subsequent collapse of the Icelandic banking system in which a number of Local Authorities had funds invested.

1.3 The CIPFA code was again amended in 2017 to take account of investments in property which many councils are now involved in, along with the requirement that councils should produce a Capital and Investment Strategy at the start of each financial year. Various other related reports have been consolidated into that one report including the Prudential Indicators and Treasury Management Strategy and Policy.

1.4 The CIPFA Code was amended again in 2021 and the main amendment once more concerned investment in commercial property with CIPFA setting out that Local Authorities must not borrow from the Public Works Loan Board (PWLB) to invest primarily for financial gain.

2. Changes to the current Treasury Management Strategy

2.1 The policy is assessed each year to ensure it complies with current legislation and that it maximises the financial benefits of the Council’s borrowing and investing activities at the lowest possible risk.

2.2 At this time it is felt that last year’s policy is still suitable for our current needs.

3. Treasury Management Strategy for 2023/24

Interest Rates and the Economy

3.1 In order to maintain price stability the Government has set the Bank of England’s Monetary Policy Committee (MPC) a 2% target for Consumer Price Index (CPI) inflation.

3.2 Currently, CPI inflation is running at 11.1% (November 2022) due largely as a result of food, fuel prices and the war in Ukraine, inflation is expected to fall to around 7.4% in 2023 and then down to the 2% target in 2024. The MPC’s main tool to deal with heightened inflation would normally be to raise the base rate.

3.3 The Bank of England base rate started the 2022/23 financial year at 0.75% it was changed to 1% on the 5th May 2022 it has then increased on the following dates as follows 16th June to 1.25%, 4th August 1.75%, 22nd September 2.25% , 3rd November 3% and finally on the 15th December 3.5%.

3.4 Although it is not possible to accurately predict where the base rate is heading it is likely that the Bank of England will raise rates in the short term in its approach trying to strike a balance between unacceptably high inflation and low interest rates to support economic activity.

3.5 Any long term borrowing is at present carried out through the Public Works Loan Board (PWLB). The benchmark period that we compare against is 24.5 to 25 years (being mid-way between the shortest and longest borrowing periods available to the Council). During this financial year 2022/23, the 24.5-25 year rate has been on average 3.96%.

Basic Strategy

3.6 The overall strategy is to adhere to the Treasury Management Policy and to the Prudential Indicators. Any borrowings or investments carried out will be within the limits as set out in those policies.

3.7 At present any long term borrowing is only carried out for prudential (Council-financed) schemes as the Government has ended supported borrowing. If any borrowing is required it is usually borrowed from the PWLB. Other forms of borrowing could be explored but obviously any use of non-PWLB loans would be approached cautiously given the risks involved.

3.8 We have been in the situation of long term PWLB rates being higher than short term (up to one year) money market rates for a number of years now so it has been cheaper to borrow (or reduce our investments) for short periods than to borrow long term.

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3.9 However, reducing cash balances mean that we will have to borrow long term again in 2023/24. The major capital schemes that we have carried out over the last few years had lowered cash balances to a level where they were needed to be kept in reserve plus there are a number of new capital schemes under development which are likely to be funded by prudential borrowing. The Head of Finance has therefore taken the decision to continue to borrow in 2023/24 in the region of £2million (depending on slippage of capital expenditure in 2022/23 and any new schemes that are approved after the date of this report).

3.10 Other avenues of borrowing long term will be explored if they are cheaper than the PWLB. This could include the Local Authority Bond Agency which has now started but the amounts they deal with are a lot higher than we require so if we did consider this it would have to be in conjunction with other councils.

3.11 It is proposed though to keep a watching brief on borrowing requirements and interest rate movements to borrow for the Council at an opportune time as possible. In the absence of clear evidence to support assumptions of movements in interest rates, the strategy will be to spread any long term borrowings over the year (i.e. pound cost averaging to minimise the risk of exposure to sudden fluctuations in interest rates).

3.12 It is also good practice for authorities to have smooth debt maturity profiles in order to reduce their exposure to a substantial borrowing requirement in a particular period in the future when interest rates might be high. The Council's current loans will mature relatively evenly in the future so the primary consideration on when to borrow money to will be based on which periods offer the best overall combination of low interest rates and long term certainty.

3.13 For information, the Authority's predicted debt profile can be found in Appendix 6 (N.B. this shows only those years in which the debt will mature). There are gaps between the years in the very long term as it is only relatively recently that the PWLB have offered rates from 30 to 50 years so there will be opportunities to fill these gaps when borrowing in future years.

4. Commercial Property and Investment Strategy

4.1 Following concerns expressed by the National Audit Office and Public Accounts Committee, the Government has recently issued statutory guidance on local authority investments, which require local authorities to publish an annual investment strategy. The new guidance covers the following types of investment.

4.2 Specified Investments – these are short term financial investments with Government, local authorities, parish councils or rated institutions. These are already covered by the Treasury Management strategy and policy. Non-Specified investments – these are financial investments in unrated institutions, such as small building societies and are also covered in the treasury management policy and strategy.

4.3 Investments in the CCLA Local Authority Property Fund – as part of Budget Council savings which went to Cabinet on the 27th February 2017, it was approved that the Council would generate additional income in 2019/20 and onwards from a longer term investment strategy up to a maximum of £5 million. To this end the Council has invested £5 million with the CCLA Local Authority Property Fund. This investment is currently earning the Council approximately 4% per annum as opposed to the current base rate of 3.5% which is roughly earned on our short-term investments. It should however also be noted that the CCLA fund is complimentary to our cash investment portfolio as interest rates are changeable and the CCLA fund has provided a more predictable return in the past.

4.4 As part of the investment strategy the Council will be required to publish the total amount of loans it is prepared to make in any one year and how it will deal with any credit losses. These loans could be to community organisations but also local authority wholly owned companies. This will need to incorporate the planned loans to the Council's development company. The strategy should also include the basis for determining the rate of interest which should be charged on these loans which need to reflect the level of risk and liquidity of them. Although the development company previously agreed by the Council is under review and operations frozen at the current time it is recommended that a limit on the total amount of loans be set at £10 million for 2023/24 to provide full flexibility for the Council should it be required.

4.5 The strategy also needs to incorporate a set of criteria against which any loan applications should be assessed including for example to support local regeneration, economic benefit, in response to local market failure including the resilience of anchor organisations or for financial yield/profit. At this stage it is recommended that these criteria be used to determine any applications. The minimum rate of interest for these types of loan should be at least 1% above the rate at which the Council can borrow from the PWLB for the appropriate period.

APPENDIX 3

TREASURY MANAGEMENT POLICY

Treasury Management Policy Statement

1. The Authority defines Treasury Management activities as:-
The Management of the Local Authority's investments, cash flows, its banking, money market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Authority.

3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in Treasury Management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

1 Risk Management

The CIPFA Code of Practice identifies eight Treasury Management risks which are:-

A. Credit and counterparty risk

There is a risk of failure by a third party to meet its contractual obligations to the Authority. Excepting the Bank of England and the UK Government (which includes the Government's Debt management office for whom we do not set a limit) we minimise this risk by having limits for investments to the approved organisations below.

When referring to ratings it should be remembered that investments are made based on an organisation's rating at the time of the investment. However, Banks or Building Societies can be downgraded by the ratings agencies whilst we are holding the investment prior to it being repaid to the Council. This risk is mitigated by dealing with highly rated Banks or Building Societies. Although the downgrading of a counterparty might only be to the next level down (which still might be a high rating) if it is not as high as the Council demands no further investments will be made to that counterparty until such time as its rating is revised back upwards to meet the Council's policy.

1 External specified investments are to be limited for a period of up to 1 year as follows:

a) MAXIMUM £10 MILLION

Specifically any of the four big clearing banks (HSBC, Royal Bank of Scotland, Barclays and Lloyds) with a short term rating of at least F1 by Fitch and P-1 by Moody's combined with assets over £400 billion.

b) MAXIMUM £8 MILLION

(i) Any other institution authorised under the Banking Act 1987 with the minimum short term ratings of F1 from Fitch and P-1 from Moody's combined with assets over £100 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £100 billion combined with the minimum short term ratings of F1 from Fitch and P-1 from Moody's.

c) MAXIMUM £6 MILLION

(i) Any other institution authorised under the Banking Act 1987 with any of the following combined ratings from Fitch and Moody's F1/P-1, F1/P-2 and F2/P-1 also combined with assets over £20 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with any of the following combined ratings from Fitch and Moody's F1/P-1, F1/P-2 and F2/P-1 also combined with assets over £20 billion.

(iii) Other Local Authorities (£6 million to each Authority) with discretion to exclude any that we deem to be a risk.

d) MAXIMUM £4 MILLION

(i) Any other institution authorised under the Banking Act 1987 with at least short term ratings of F2 from Fitch and P-2 from Moody's combined with assets over £5 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) with gross assets over £5 billion combined with at least short term ratings of F2 from Fitch and P-2 from Moody's.

e) MAXIMUM £2 MILLION

(i) Any other institution authorised under the Banking Act 1987 which are only rated by one of our ratings agencies should be at least short term rated F2 by Fitch or P-2 by Moody's combined with assets over £1 billion.

(ii) Building Societies (within the meaning of the Building Societies Act 1986) which are only rated by one of our ratings agencies should be at least short term rated F2 by Fitch or P-2 by Moody's combined with assets over £1 billion.

f) MAXIMUM £5 MILLION ON CALL

We currently have a call account facility with the Council's own bankers (Nat West) which means that we have instant access to our funds at any time. We propose to limit the amount in the call account to a maximum of £5 million at any one time with the flexibility to go to £20 million when deemed necessary by the Head of Finance in exceptional circumstances.

2 External non-specified investments are to be limited for a period of up to 1 year as follows.

a) MAXIMUM £2 MILLION PER BUILDING SOCIETY WITH A MAXIMUM OF £8 MILLION IN TOTAL

Any Building society authorised under the Banking Act 1987 which are not rated by either of our ratings agencies combined with assets over £1 billion. These investments are termed as non-specified investments.

The Authority currently uses both Fitch and Moody's which are recognised as "relevant rating agencies" by the Securities and Futures Authority and are two of the three major international rating agencies and we refer to their websites every time we carry out an investment. The short term ratings of both companies which apply to our policy are set out below:-

	MINIMUM FITCH	MINIMUM MOODY'S		
Limits	Short term	Short term	Assets over	Grade Meaning
Maximum £10 million	F1	P-1	£400 billion	Very strong grade
Maximum £8 million	F1	P-1	£100 billion	Very strong grade
Maximum £6 million	F1/F2	P-1/P-2	£20 billion	Very strong grade
Maximum £4 million	F2	P-2	£5 billion	Strong grade
Maximum £2 million	Either F2	Or P-2	£1 billion	Strong grade

NOTE TO THE ABOVE If only one of the agencies actually rates a certain Bank or Building Society then that single rating will have to be at least F2 by Fitch or P-2 by Moody's.

3 Country Limits

a) MAXIMUM £10 MILLION

The criteria for lending to foreign-domiciled financial institutions would be firstly that the country in question would have to be rated AAA by Fitch and Aaa by Moody's. Secondly, the bank in that country would have to comply with the external specified policy above. Thirdly they would have to be incorporated within the UK or allowed to accept deposits through a branch in the UK. The maximum limit of £10 million per country would then apply. N.B. this limit doesn't apply to UK domiciled banks and building societies.

4 Group Limits

Any Bank or Building Society that we deal with which are owned by another one of our Counterparties will be subject to a group limit which is set at the highest limit attained by the parent Bank or Building Society. This means that if the parent company qualifies for a limit of £10 million and its subsidiary qualifies for a limit of £6 million then the limit for the two organisations together would be set at £10 million.

5 Other external investments for a period of up to 1 year as follows:

(i) Gilt-edged Securities.

(ii) Securities admitted to the official list of the stock exchange and in respect of which, all repayments of principal and interest are guaranteed by Her Majesty's Government.

(iii) Money Market Funds

(iv) Certificates of Deposit

6 External investments for a period longer than 364 days

Investment in the CCLA managed Local Authority Property Fund up to a maximum initial investment limit of £5 million.

7 External borrowings of periods up to 1 year

The Authority will only enter into short term external borrowings with the following:

(i) The Bank of England or any other institution authorised under the Banking Act 1987.

(ii) Building Societies (within the meaning of the Building Societies Act 1986).

(iii) Persons or bodies listed in part II of schedule to the Local Authorities (Capital Finance approved investments) regulations 1990. These bodies are Local or Public Authorities and Public Corporations.

B. Liquidity risk

The Authority will have an effective cash flow forecasting and monitoring system which will identify the extent to which the authority is exposed to the effects of potential cash flow variations and shortfalls. Also the authority has access to the money markets and an overdraft facility with our bankers sufficient to meet most circumstances.

C. Interest rate risk

The Authority will obtain reliable and informed information and advice from brokers, the media and the internet on the likely future courses of interest rates, to enable us to assess the extent to which movements may impact on the authority and to permit the effective management and control of its exposures to the same. The Authority is required to set fixed and variable interest rate exposure limit indicators on its borrowings and investment principal sums outstanding which for 2023/24 are recommended as follows:

1 Fixed rate exposure

(i) For Authorities that have no investments fixed debt would remain within 100% of net debt. However, Calderdale has short term investments due to a number of factors such as reserves and balances and a beneficial cash flow position at certain times of the year. Due to the formula to calculate this indicator, the Authority's fixed debt can exceed 100% of its net outstanding principal sums (i.e. fixed debt will be more than net overall debt).

(ii) Therefore it is recommended that the Council sets an upper limit on its fixed rate exposure for 2023/24 of 115% of its net outstanding principal sums. This takes account of both Calderdale's particular expected position whilst providing the flexibility to take advantage of interest rate movements whilst limiting any potential exposure.

(iii) If future Council decisions on expenditure are taken and the levels of investments fall significantly then a further report to members with a revised upper limit on fixed interest rate exposure may be necessary.

2 Variable interest rate exposure

(i) It is further recommended that the Council sets an upper limit of its variable interest rate exposures for 2023/24 of 15% of its net outstanding principal sums. Again this will enable us to retain sufficient flexibility to cover our day to day obligations and take advantage of interest rate movements within an overall exposure limit.

D. Exchange rate risk

All transactions are conducted in GB pounds so therefore there is no exchange rate risk to the Authority.

E. Refinancing risk

The Authority will keep reliable records and forecasts of the terms and the maturities of its borrowings, capital projects and partnership funding, to allow the authority to plan the timing of, and successfully negotiate appropriate terms for its refinancing. Also to aid this, the Council will set upper and lower limits for the maturity structure of its borrowings so that when taking long term borrowing decisions the Council will consider the repayment date of new and existing loans. Repayable loans as a percentage of total debt will be kept within the limits indicated for the following periods.

Period	Lower limit	Upper limit
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	50%	100%

These limits will provide a high degree of long-term stability whilst retaining the flexibility of being able to smooth out the maturity profile of the Authority's debt when interest rates are in our favour so that the Council is not over exposed to the risks of re-financing large amounts of borrowing in periods when interest rates might be high or uncertain.

F. Legal and regulatory risk

This policy is an up to date record of our powers, and as the content describes, we do adhere to the CIPFA Code of Conduct for Treasury Management, relevant Finance Acts and Local Government Acts. We do issue copies of this policy to our counterparties if requested. We also only enter into transactions with counterparties as defined in A above (credit and counterparty risk).

G. Fraud, error, corruption and contingency management

To combat fraud, error and corruption we use the following control environment to create and maintain an effective audit trail.

(i) A full analysis of all transactions and processes are kept for 7 years.

(ii) We report to the relevant committee every 6 months on the progress of Treasury Management to keep members informed.

(iii) Members of Audit Committee and the Portfolio Holder for Resources will be kept fully informed of appropriate issues in the Treasury Management function.

(iv) There is a stringent delegation of duties in that one person initiates the transaction, a different person checks it and a third person authorises it. We also have back up staff in case of staff absence.

(v) An electronic version (with back-ups) is kept of all transactions.

(vi) Sufficient insurance arrangements have been made to cover the Authority in the event of fraud or corruption.

(vii) An annual audit of Treasury Management is carried out by internal audit as part of their review of the Council's core financial systems. In addition there is a system of spot checking of the Council's investments to test compliance against the Treasury Management policy.

H. Market risk

The principal sums invested at present are set and are not subject to market fluctuations (apart from any investment in the CCLA Local Authority Property Fund).

I. Performance management

This Authority is committed to the pursuit of value for money in its Treasury Management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management policy statement.

J. Decision making and analysis

This Authority in respect of every decision made will:-

(i) Be clear about the nature and extent of the risks to which the Authority may become exposed.

(ii) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(iii) Be content that the documentation (as contained in the daily treasury management working procedures) is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping.

(iv) Ensure that third parties are judged satisfactory in the contexts of the Authority's creditworthiness policies, and that limits have not been exceeded.

(v) Be content that the terms of any transaction have been fully checked against the market, and have been found to be competitive.

Approved instruments, methods and techniques

K. Raising Capital Finance

Apart from the use of leasing, no forms of finance shall be used other than the following.

(i) From the National Debt Commissioners, the Public Works Loan Board (PWLB) or other Government agencies. The PWLB has been and will continue to be the main source of the Council's longer term borrowing.

(ii) From any institution authorised under the Banking Act 1987 or from the Bank of England. This will take the form of both short term loans and also long term loans in the form of LOBOs which stands for Lenders Option Borrowers Option.

(iii) From any other Local Authority or Public corporation along with any associated Pension funds. This will mainly take the form of short term loans.

(iv) From an overdraft negotiated with the Council's own bankers. The current overdraft limit is £500,000 and interest is charged at 1% above the base rate. This facility is used sparingly either when temporary borrowing is difficult or when the sums involved are small (i.e. less than £500,000).

(v) Loan instruments not transferable by delivery, such as Bonds, Mortgages or any other document acknowledgement that money has been lent to the Authority.

The Council does not currently engage in any other form of borrowing available to it.

L. Organisation, clarity and segregation of responsibilities and dealing arrangements

(i) Full Council

Responsible for the setting of and changes to the Treasury Management policy also receiving and approving the following reports, Treasury Management Strategy and Prudential indicators and borrowing limits in advance of the year.

(ii) Cabinet

Responsible for recommending a treasury management policy statement, treasury management capital, Investment & treasury management strategies and Prudential indicators and borrowing limits to Council for final approval.

(iii) Audit Committee

Scrutiny of Treasury Management policy and performance including a mid-year review and annual report after the close of the financial year.

(iv) Head of Finance

a) Submitting and reviewing treasury management policy/practices
b) Reviews the performance of the treasury management function.
c) Make decisions on investments and borrowings exceeding 1 year.
d) Report to elected Members as provided for in section M below.
e) Ensure that Treasury management staff receive adequate training, and the effective division of responsibilities within the treasury management function.
f) Ensure all treasury management staff are aware of and have access to a copy of the Bank of England's "London Code of Conduct".
g) Ensure the adequacy of internal audit, and liaise with external audit.
h) Recommends the appointment of any external service providers.

(v) Service lead for Accountancy

a) Assess long term borrowing requirements.
b) To manage debt in accordance with the Treasury Management Strategy.
c) Manages the overall treasury management function.

(vi) Senior Finance Officer (Treasury Management)

a) Ensure that the day to day activities are carried out in accordance with this statement.
b) Decide and negotiates borrowings and investments on call or for fixed periods.
c) In consultation with the Service lead for Accountancy, decides and negotiates borrowings and investments for fixed periods up to one year.
d) Carries out the longer term borrowing and investments as approved by the Head of Finance.
e) Negotiates and arranges leasing for the Council on various items of equipment.

In the absence of the Senior Finance Officer (Treasury Management), all duties will pass to the Service lead for Accountancy with the exception of the day to day activities, which will be carried out by the Finance Officer who has been delegated to cover for treasury management in consultation with the Service lead for Accountancy.

In the absence of the Service lead for Accountancy, all duties will pass to the Head of Finance.

M. Reporting Arrangements

The Head of Finance will submit the following reports to Committee:-

a) Prior to the beginning of each financial year, a report to Cabinet and Council setting out the Capital strategy, Investment strategy, Debt limits, Prudential Indicators and policy for the Treasury management function.

b) A mid-term review report to Audit Committee for the 6 months to 30th September each year setting out the Council's activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.

c) An annual report to Audit Committee setting out the Council's activities in borrowing, investing and leasing with an assessment of the effects of the treasury management policy.

d) Reports to Audit committee as appropriate, in consultation with the Chair of Audit Committee and Portfolio Holder for Resources covering compliance of and improvements to the Treasury Management strategy and policies.

N. <u>Budgeting, Accounting and Audit Arrangements</u>

a) The Authority will ensure that its auditors and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles and that such information and papers demonstrate compliance with external and internal policies and approved practices. Internal audit will also carry out an annual review of loans and investments reporting any variance from normal practice.

b) The Head of Finance will prepare as part of the revenue budget process an annual budget for treasury management and will exercise effective control over the budget and report to members via the Authority's overall revenue monitoring.

O. <u>Cash Flow Management</u>

a) With the exception of petty cash imprests and money held in schools' own bank accounts, all money in the hands of the Council would be aggregated for the purpose of Treasury management. Cash flow projections will be prepared before the start of the financial year and updated on a regular basis.

b) The main objectives to be achieved are:

(i) Borrowing

1. To manage the Council's debt maturity profile.
2. To forecast average future interest rates and to borrow accordingly.
3. To use predominantly fixed rate borrowing in order to maintain certainty and stability in the budgeting process.

4. To reschedule debt where appropriate in order to take greater advantage of interest rate movements.

(ii) Investments

1. To use the Council's balances to minimise external borrowings.
2. Only to externalise the Council's funds and balances where to do so would generate a level or return significantly greater than could be secured by internal investment.
3. When investing we will ensure that adverse market fluctuations on the Authority are minimised.

P. Money Laundering

This Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, any suspicions will be reported to the Lead for Accountancy, the Head of Audit and upwards to the Head of Finance.

The Authority's Treasury Management function protects itself from the possibility of being involved in a money laundering transaction as follows:-

(i) Treasury management transactions are not in physical cash and the Authority has a policy of not accepting cash of more than 15,000 Euros equivalent in one transaction. This is set in S151 Standards.

(ii) The Authority restricts its transactions to the institutions of bodies listed in part II of the schedule to the Local Authorities Regulations 1990, the Bank of England, any other institution authorised under the Banking Act 1987 and Building Societies.

(iii) Most transactions (apart from PWLB) are conducted through brokers who have their own procedures for identifying and recording third party identities.

Q. Staff Training and Qualifications

This Authority recognises the importance of ensuring that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. Any training needs will be identified informally as they arise and formally as part of the Council's Performance Appraisal Scheme.

The Head of Finance will ensure that the Council member tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

R. Policy on External Service Providers

This Authority only makes use of external service providers for money-broking who act as intermediaries, making introductions between ourselves and the Banks and Building societies etc. who we borrow or lend to. No other external managers will be used without prior to approval of Cabinet/Council.

S. Corporate Governance

This Authority is committed to the pursuit of proper corporate governance accordingly the Treasury Management function will be undertaken with openness and transparency, honesty, integrity and accountability.

(i) We will adopt the principles and policies promoted by CIPFA in their code of practice which will deliver the framework for demonstrating openness and transparency in the Authority's treasury management function.

(ii) The Authority will publish and give free access to information about its Treasury Management transactions and any other documents connected with its Treasury management activities.

(iii) The Authority will establish clear treasury management policies, the separation of roles in treasury management and the proper management of relationships both within and outside the Authority to establish the integrity of the function.

(iv) The Authority will establish robust treasury management dealings and an absence of business favouritism, which will create keen competition in treasury management, this will lay the groundwork for fairness.

APPENDIX 4

Minimum Revenue Provision Policy

1. Background

1.1 Capital expenditure incurred by the Council can be paid for from grants or capital receipts, but sometimes the expenditure is financed by "credit arrangements" such as borrowing or leasing. Local authorities are required each year to set aside some of their revenues to pay off these credit arrangements (or debt) over time. This is called the Minimum Revenue Provision (MRP).

1.2 The annual amount to repay was originally prescribed in law as a minimum of 4% of the outstanding balance of capital expenditure (CFR). This was replaced in 2008 with a requirement to make "prudent provision", though in practice many authorities, including Calderdale, simply continued repaying an annual 4% charge.

1.3 The full significance of the relaxation of the rules at that time surrounding MRP payments was not appreciated and further guidance issued by DCLG in 2012 states "that debt ought to be repaid over a period that is either commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant, it is reasonably commensurate with the period implicit in the determination of the grant". The guidance goes on to say that, while councils are required to have regard to the previous guidance, they are allowed to set their own policy outside of the options given if it can be demonstrated that this would be prudent.

1.4 The new relaxed rules on MRP were explained in the report to Cabinet on the 15th January 2018 whereby Council approved the re-scheduling of MRP payments to link them more closely to the average expected life of Council assets.

2. Recommendations for the annual set aside of MRP

2.1 For supported borrowing, prudential borrowing and PFI and similar lease deals the Council has the option of charging 1) on a straight-line Equal Instalment of Principal (EIP) basis or 2) Annuity basis

2.2 EIP, as the name suggests, involves simply dividing the outstanding financing, i.e. CFR, by the number of years chosen generating a series of equal annual amounts over the estimated life of the asset. This method is easy to understand and produces a regular charge against revenues.

2.3 The annuity basis is more complicated and depends on the interest rate chosen. The method is similar to a standard repayment mortgage where the principal element is smaller in the earlier years and increases as more principal is paid off due to a resultant drop in the interest portion. The main disadvantage of the annuity basis is that it defers settlement of the debt until later years. This may be appropriate for some types of spend, e.g. regeneration schemes where benefits may be delayed until later in their life, but is not necessarily the most equitable way to charge for the majority of Council assets where the benefit is just as much in year one as in year thirty.

2.4 Due to the issue of equity; the removal of any difficulty in choosing an appropriate interest rate; the simplicity of understanding the concept; and the regularity of the charge, it is recommended that the Council adopts an EIP approach to MRP calculations.

2.5 The policy prior to 2015/16 was that MRP started to be charged into the accounts the financial year following the one in which the expenditure was incurred. However, when borrowing to provide an asset, the authority is also allowed to treat the asset life as commencing in the year after in which the asset first becomes operational. This postponing of MRP repayments on capital schemes is a logical step to take as the benefits of most projects are only realised after they have finished (for example within Town Centre Office Strategy, savings from the completion and occupation of Princess Buildings were only generated once staff are decanted from other buildings which are then closed/sold) and therefore the policy agreed in last year's prudential report will continue to be followed.

2.6 Some local authorities have offset overpayments of MRP in previous years against charges in future years. Following discussions with the Council's external auditors and the approval gained in the report to Cabinet on the 14th January 2019 Calderdale adopted these measures as the Head of Finance found these transactions are in the best interests of the Council.

2.7 Loans to 3rd parties for expenditure which, if paid for by the Council would be capital expenditure, are treated as capital expenditure under current rules. Such expenditure forms part of the Capital Financing Requirement (CFR). Local authorities are required each year to set aside some of their revenues by making prudent provision to pay off this sum over time.

2.8 With third party loans, there is an understanding that these will be repaid by the third party. This may be contractual (specific amounts and on specific dates) or factored into a business plan (and triggered by some specific event). Whilst there is a valid expectation that the loans will be repaid (and the long term debtor does not require impairing), the Council does not need to make any provision as this will be provided in due course by the third party. It is the third party who is benefitting from the expenditure and it is they who are making repayment.

2.9 The policy is therefore that there will be no MRP charge for any loans supported by identified prudential borrowing apart from smaller historic loans where, for simplicity, we will continue to charge in MRP within the general 2% CFR set aside.

2.10 The MRP policy that is being recommended for approval therefore is that the Council:-

- sets aside 2% of its Capital Financing Requirement (CFR) each year on an Equal Instalment of Principal (EIP) basis as its MRP on outstanding capital expenditure previously supported by Government
- sets aside equal instalments of MRP based on the life of the assets financed for prudentially borrowed capital expenditure
- sets aside equal instalments of MRP based on the life of the assets financed for PFI and similar lease deals
- sets aside MRP from the year after in which a capital asset first becomes operational
- delegates authority to the Head of Finance to use overpayments of MRP in previous years to charge a lower amount of MRP than would otherwise be the case under the policy set out above.
- does not set aside MRP on third party loans where there is a valid and agreed repayment plan

PRUDENTIAL INDICATORS 2023/24-2025/26

This section of the report sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

1. Introduction and Background

1.1 It is required by Part 1 of the Local Government Act 2003 and related Prudential Code for Capital Finance in Local Authorities that the Council set these borrowing limits and indicators before the forthcoming year.

1.2 The Authority is also required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to prepare an annual statement of their policy on making MRP for submission to full Council.

1.3 Calderdale has been required to operate within the new Capital Finance regulations, contained within the Local Government Act since 2004/05.

1.4 The regulations created some relaxation of the capital control regime (prudential borrowing) and require authorities to set and monitor a number of indicators referred to in the Prudential Code.

1.5 Following an extensive consultation exercise in 2008 the Prudential Code was reviewed to identify practical implementation issues in relation to the impact of International Financial Reporting Standards (IFRS), the impact of the Housing review and the credit crunch. The Prudential Code was then revised to take into account these issues and was approved by CIPFA's treasury management panel on the 5th October 2009.

1.6 The Prudential Code was revised again in 2017, the major change being the requirement for local authorities to look at capital expenditure and investment plans in light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority.

1.7 The CIPFA Code was amended again in 2021 and the main amendment concerned investment in commercial property with CIPFA setting out that Local Authorities must not borrow from the Public Works Loan Board (PWLB) to invest primarily for financial gain.

Changes to the new Prudential Code from last year's report

2.1 There are no changes from last year's report to Cabinet on the 17th January 2022.

2.2 The principle that prudential borrowing will only be undertaken where it is funded by savings or existing budgets has already been firmly established within the Council's medium term financial planning framework.

2.3 Therefore, the purpose of this report is to set the required prudential indicators for Calderdale for a three year period beginning 2023/24.

Process for Setting the Prudential Indicators

2.4 Before the start of each financial year the Head of Finance must submit a report to Cabinet, for recommendation to Council, setting prudential indicators for the forthcoming and following two years. The process for setting, reporting and reviewing prudential indicators was recommended to Council by Cabinet on the 26 January 2004 and subsequently approved.

Nature of the Prudential Indicators

2.5 Apart from the CIPFA Code of Practice for Treasury Management in the Public Services (which has already been adopted by Calderdale) there are three other categories of prudential indicators:

1) Estimates (which are calculated as part of the budget setting process).
2) Actuals (which have their source in the latest audited financial statements).
3) Limits (i.e. parameters that should not be breached without management action).

2.6 Estimates and limits are rolling and re-set each year. Actuals are fixed as they use figures contained within the Authority's statement of accounts.

Monitoring and Review of Prudential Indicators

2.7 The Head of Finance will monitor against all forward looking indicators (i.e. estimates) and these forecasts will be updated and reported as appropriate within the current reporting and budgeting framework. There should be no need to amend actuals once they have been included within this prudential indicators report.

2.8 Limits will be monitored constantly throughout the year. Where, in the Head of Finance's opinion, there is a danger the limits will be breached, a report will be brought to Members. If this situation arises the basic options available are to raise the limits already set or instigate management action to ensure that the current limit is not breached.

2.9 The Head of Finance will highlight any unusual deviations from estimates and limits in the mid-term and outturn Treasury Management reports to Audit Committee.

3 OPTIONS CONSIDERED

3.1 The Code does not include suggested indicative limits or ratios. These are for each Local Authority to decide itself (subject to any overriding powers retained by Central Government). The following are the indicators recommended by the Head of Finance and are based on the principles agreed in the Medium Term Financial Strategy and the associated consideration of clear affordability constraints:

4 ESTIMATES AND ACTUALS

Capital Expenditure

4.1 The Prudential system requires the inclusion of an estimate of future years' capital expenditure. The majority of the Council's capital spend was previously financed by Central Government either directly through grants or by supported borrowing via the revenue support grant. Following the Local Government Settlement announced on the 13 December 2010, supported borrowing allocations from Central Government have now been abolished, which means that capital expenditure can only be incurred where it is financed from grants/contributions, capital receipts or via prudential borrowing. The estimates of future Capital expenditure set out below reflect this loss of supported borrowing.

4.2 As the Council's strategy is to fully utilise all funding available to it, any forecasts made will vary in line with Government allocations, if any, and so the forecast below will be updated as the funding base changes via the capital monitoring report to Members during the year.

4.3 The actual capital expenditure that was incurred in 2021/22 was £53.5m and estimates of capital expenditure to be incurred for the current and future years are:-

Capital Expenditure	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m*
Per Capital Monitor	83.0	92.2	37.8	0

*This covers the approved schemes within the agreed Capital Programme. The figure for 2025/26 is currently nil as there is no forecast for this financial year at present.

4.4 The above estimates will be monitored and the Programme adjusted in line with actual allocations to ensure that the forecast remains prudent and consistent with overall budget strategies.

Ratio of Financing Costs to Net Revenue Stream

4.5 Financing costs are made up of interest payments, investment income and the statutory amount required for the repayment of debt (MRP). The net revenue stream is the amount to be met from Government Grants and local taxpayers.

4.6 From 2006/07 onwards the Revenue Support Grant (RSG) received from Central Government is split between original RSG and Dedicated Schools Grant (DSG). The DSG grant is for specific school related expenditure and is not available for the servicing of debt other than prudential borrowing for schools related spend.

4.7 This indicator is intended to show the proportion of the Authority's resources that are used to finance capital assets and is based on estimates of capital expenditure contained within this report.

4.8 The actual ratio of financing costs to net revenue stream for 2021/22 was 6.9%. The estimates of the ratio of financing costs to net revenue stream for the current and future years (excluding DSG grant) are:-

	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Finance costs as a % of net revenue stream (excl. DSG)	7.1	8	8.1	8.0

4.9 What this indicator highlights is that the ratio is increasing from 2023/24 mainly due to higher Minimum Revenue Provision (MRP) charges as a result of a larger capital programme and rising borrowing costs due to interest rates going up. In addition, MRP starts to increase as the MRP holiday (due to previous years overpayments) comes to an end.

The Capital Financing Requirement (CFR)

4.10 The capital financing requirement includes all relevant capital expenditure already incurred and due to be incurred over the period, and reflects the Authority's underlying need to borrow for capital purposes.

4.11 The actual capital financing requirement as at 31 March 2022 was £238.5m. Estimates of the end of the year capital financing requirements for the Authority for future years are:

2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
241.4	240.0	247.5	237.8

4.12 The Capital financing requirement increases in 2024/25 over the previous year as new prudentially borrowed schemes mainly the new leisure centre and pool at North Bridge are progressed. As most of the capital expenditure is in 2024/25 the CFR in 2025/26 onwards starts to fall again.

Incremental Impact of Prudential Borrowing on Council Tax

4.13 The Council's current strategy is that any borrowing carried out under prudential powers will firstly need identified budget in place unless it relates to a self-financing scheme. It is therefore anticipated that there will be no specific direct impact on Council Tax for prudential schemes over and above capital investment decisions that have previously been taken by the Council.

4.14 Part of the new Prudential Code is for Local Authorities to develop their own Prudential Indicators, with this in mind one of the areas that could be of interest to members is the amount approved for prudential schemes, (excluding schools which have now become academies) and the amount that is still outstanding on this debt. This will give an indication of the current exposure the Council has to these schemes. Prior to 2022/23 approximately £112 million has been spent which includes Brighouse and Sowerby Bridge pools, the Shay Stadium, and the works on the big three schemes which are Halifax Town Centre Office strategy, New Central Library/the Piece Hall and Street lighting of this £92.2 million is still outstanding.

5 LIMITS

Net Borrowing and the Capital Financing Requirement

5.1 In contrast to the day to day cash flows of the Authority, the Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes.

5.2 In order to ensure that over the medium term net borrowing will only be for a capital purpose, net external borrowing should not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next three financial years.

5.3 The Head of Finance reports that the authority had no difficulty meeting this requirement in 2021/22 as the Capital Finance Requirement was £238.5 million and external borrowing stood at £160 million (incl. the PFI liability), and no difficulties are envisaged for the current or future years. This view takes into account current commitments and existing plans.

Operational Boundary for Debt

5.4 The operational boundary reflects the Head of Finance's estimate of the most likely, but not worst case scenario, of external debt levels taking into account estimates for planned capital expenditure and cash flow requirements for all purposes.

5.5 Sustained breaches of the operational boundary limit would be used by the Head of Finance to alert the Authority to the possibility of an imminent breach of the authorised limit. Council is asked to approve the following normal operational boundary for external debt for the next three financial years.

	2023/24 £m	2024/25 £m	2025/26 £m
Borrowings	138	146	140
Other Long term Liabilities (i.e. PFI)	24	21	19
Total Operational Boundary	**162**	**167**	**159**

Authorised Limit for Debt

5.6 In respect of its external debt, it is recommended that the Council approves the following maximum authorised limits for its total external debt gross of investments for the same time period.

	2023/24 £m	2024/25 £m	2025/26 £m
Borrowings	144	153	147
Other Long term Liabilities (i.e. PFI)	24	21	19
Total Authorised Limit	**169**	**174**	**166**

5.7 These limits are based on the operational boundary with the addition of sufficient headroom for unusual cash movements.

5.8 Within the figures, borrowing and other long-term liabilities are separately identified. Members have delegated authority to the Head of Finance to effect movement between borrowing and other long-term liabilities in order to retain flexibility and best value for money for both the operational boundary and the authorised limit. However, any changes deemed necessary by the Head of Finance will be reported to the Council at its next meeting following the change.

5.9 The Council's actual external debt at 31 March 2022 was £126.8m (in addition to the PFI scheme expenditure) and is expected to increase by £6.1 million during 2022/23 due to new borrowings of £10 million less repayment of existing debt for £3.9 million. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary since the actual external debt reflects the position at one point in time.

5.10 Loans – as part of the investment strategy the Council will be required to publish the total amount of loans it is prepared to make in any one year and how it will deal with any credit losses. These loans could be to community organisations but also local authority wholly owned companies. This will need to incorporate the planned loans to the Council's development company. The strategy should also include the basis for determining the rate of interest which should be charged on these loans which need to reflect the level of risk and liquidity of them.

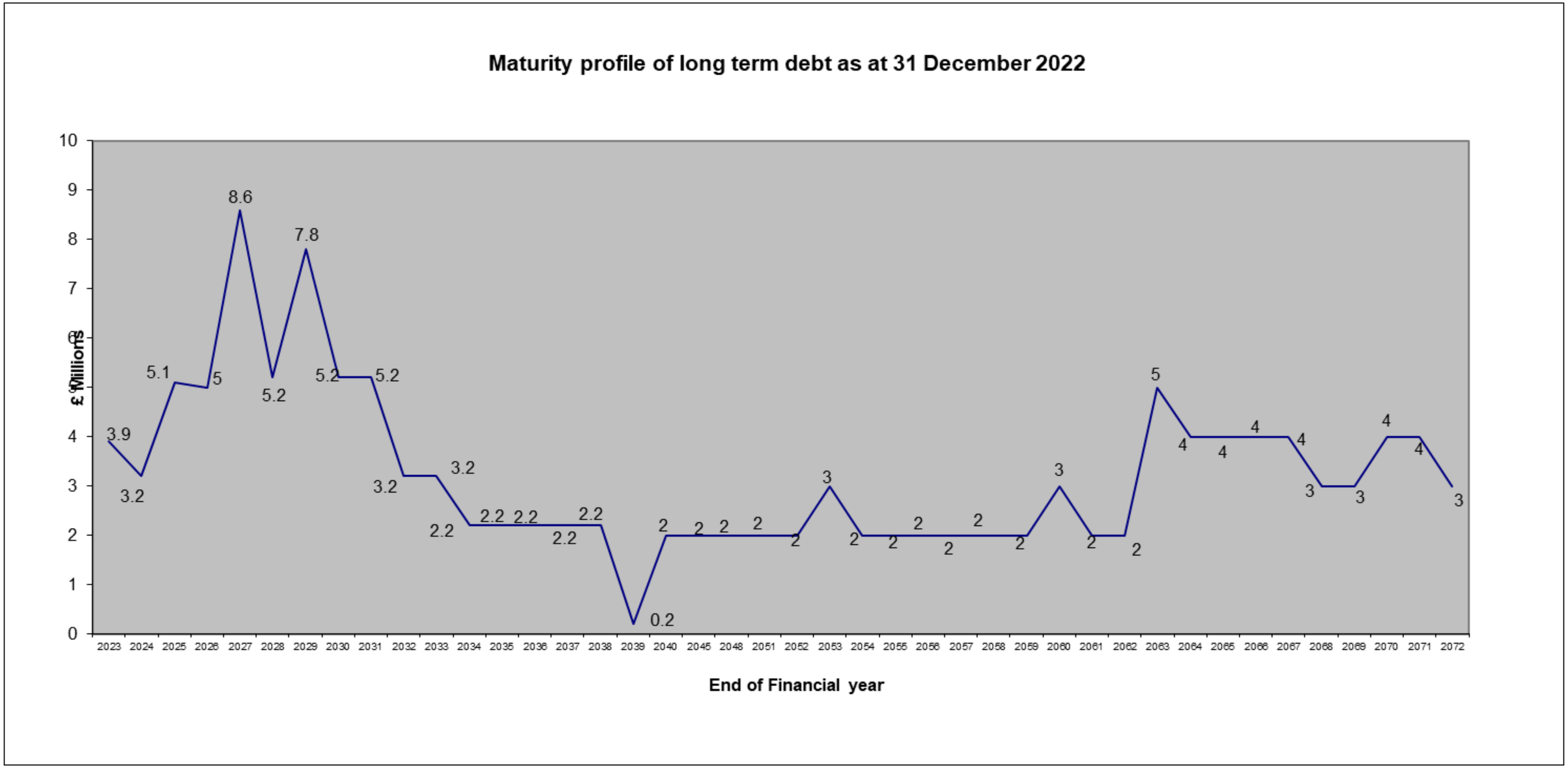
5.11 Given the proposals which have already been agreed by Council for the development company it is recommended that a limit on the total amount of loans be set at £10 million and that the minimum rate of interest should be at least 1% above the rate at which the Council can borrow from the PWLB for the appropriate period. The limit to be applied to loans and the minimum interest rate to be charged will be reviewed and agreed each year as part of this report

6. Conclusion and Summary

6.1 The Authority is required to abide by the prudential code and the resulting limits it sets itself. Calderdale is not, however, bound to the indicators set in this report if they are subsequently found not to be in the interests of the Authority. In these circumstances a report will be brought to Members to either amend the limits already set or to recommend the instigation of management action to ensure that the current limits are not breached.

6.2 The prudential code supports the system of capital investment and Local Government in a publicly accountable manner. The report sets revised prudential indicators and recommends a general continuation of Council policy. An Operational Boundary for external debt of £162m, £167m and £159m and an Authorised Limit for external debt of £169m, £174m and £166m for the financial years 2023/24, 2024/25 and 2025/26 are recommended.

APPENDIX 6


Maturity profile of long term debt as at 31 December 2022
£ Millions
End of Financial year
10
9
8
7
6
5
4
3
2
1
0
2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2045 2048 2051 2052 2053 2054 2055 2056 2057 2058 2059 2060 2061 2062 2063 2064 2065 2066 2067 2068 2069 2070 2071 2072
3.9
3.2
5.1
5
8.6
5.2
7.8
5.2
5.2
3.2
3.2
2.2
2.2
2.2
2.2
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2
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3